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UNFPA INTERNAL AUDIT AND OVERSIGHT ACTIVITIES IN 2009

Summary

The present report on UNFPA internal audit and oversight activities in 2009 responds to Executive Board decision 2009/15 and earlier Board decisions. The report seeks to inform the Board of the most significant risks that could impact the work of the Fund in a development environment marked by change and challenges.

Following the introduction, section II of the report presents a review of oversight activities completed in 2009; section III provides an overview of the risk universe of UNFPA and of its dynamics; section IV highlights significant oversight issues in view of the challenges delineated in the report. In addition, the status of disclosure of internal audit reports and the single audit principle are reported in this section. Section V focuses on UNFPA change management and risk management; section VI presents the conclusion; and section VII contains a recommendation. Annex 1 contains figures. As requested by the Executive Board in decision 2008/37, annex 2 provides the annual report of the Audit Advisory Committee (AAC) and annex 3 contains the UNFPA management response to the AAC report. In addition, UNFPA will provide a comprehensive management response that will be available on the UNFPA Executive Board website.

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List of Acronyms

AAC	Audit Advisory Committee
Atlas	PeopleSoft™
AWP	Annual workplan
BSB	Biennial support budget
CARDS	Comprehensive audit and recommendation database system
COE	Certificate of expenditure
DOCO	United Nations Development Operations Coordination Office
DOS	Division for Oversight Services (UNFPA)
ERM	Enterprise risk management
ERP	Enterprise resource planning
HACT	Harmonized approach to cash transfers to implementing partners
HLCM	United Nations High-level Committee on Management
ICF	Internal control framework
IPSAS	International Public Sector Accounting Standards
IT	Information technology
MIS	Management Information Services
NEX	National execution
OFA	Operating fund account
OSCE	Organization for Security and Cooperation in Europe
PAD	Performance appraisal and development
RBM	Results-based management
RIAS	Representatives of the Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions
UNEG	United Nations Evaluation Group
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNSAS	United Nations System Accounting Standards

I. INTRODUCTION

1. The present report provides the Executive Board with a summary of the internal audit and oversight activities of UNFPA in 2009. The report responds to Executive Board decision 2009/15 and earlier decisions. This report is presented at a time when UNFPA is going through management change with the implementation of its new structure and the leadership transition that will take place by the end of 2010. Thus, this report seeks to inform the Executive Board not only of the most significant UNFPA achievements but also of the major risks that could impact the work of UNFPA in an environment marked by the development challenges in assisting countries in meeting the commitments of the Programme of Action of the International Conference on Population and Development (ICPD) and the Millennium Development Goals (MDGs). It is important to keep in mind that internal audit and oversight findings reflect the entities exposed to high risk within UNFPA, as the Fund focuses its internal audit and oversight activities on selected UNFPA offices operating under high-risk conditions.

2. The present report is structured as follows: following the introduction, section II presents a review of oversight activities completed in 2009; section III provides an overview of the risk universe of UNFPA and of its dynamics; section IV highlights significant oversight issues in view of the challenges mentioned above. In addition, the status of disclosure of internal audit reports and single audit principle are reported in this section. Section V focuses on UNFPA change management and risk management; section VI presents the conclusion; and section VII contains a recommendation. Annex 1 contains figures. All data provided in the present report are data communicated by management as of 31 January 2010. As requested by the Executive Board in decision 2008/37, annex 2 provides the annual report of the Audit Advisory Committee (AAC) and annex 3 contains the UNFPA management response to the AAC report. In addition, UNFPA will provide a comprehensive management response that will be available on the UNFPA Executive Board website.

II. OVERSIGHT ACTIVITIES IN 2009

A. Country office and headquarters engagements

1. Audits and evaluations

3. The UNFPA Division for Oversight Services (DOS) carried out 13 audits in 2009 (see figure 1). Fewer audits were conducted compared to 2008 because of a shortage of staff. These audits were carried out in three countries in the Africa region, one country in the Eastern Europe and Central Asia regions, and five countries in the Asia and the Pacific region. The division also carried out four audits at headquarters and completed two thematic evaluations (Thematic evaluation of UNFPA's humanitarian response; and Evaluation quality assessment: 2007-2008). Both evaluations are available at http://www.unfpa.org/public/oversight/pid/4866. The activities of the Evaluation Branch are provided in detail in the Biennial report on evaluation (DP/FPA/2010/19).

2. Investigations

4. In 2009, the Investigation Branch established a "best practices" investigation procedures manual as well as a digitized case registry system. Both processes were conducted in cooperation with sister United Nations agencies in the interest of furthering harmonization across the system.

5. The Investigation Branch continued to invest in computerized forensic technology in order to search, collect, preserve and analyse digital information to support or verify facts and/or allegations in investigations.

6. A total of 38 complaints were received by the Investigation Branch in 2009, which constitutes a 47 per cent increase in caseload compared to 2008 (20 complaints). This increase has placed a significant strain on resources and has reduced the ability of the Investigation Branch to concentrate on fraud detection and prevention activities. This also presents the risk that the Branch will not be able to investigate all complaints should the caseload continue to increase. The five major categories of complaints received in 2009 were fraud (66 per cent); standards of conduct and ethics (13 per cent); violations of financial rules and regulations (13 per cent); abuse of authority and/or harassment (5 per cent); and conflict of interest (1 per cent). The complaint types illustrated in figure 2 are further defined as the following types of action or misconduct:

- Abuse of authority, harassment, sexual harassment: Abuse of authority, workplace harassment
- Conflict of interest: Breach of confidentiality, conflict of interest, failure to disclose promptly the receipt of gifts, remuneration or other benefits received from an external source, unauthorized external activities, undisclosed external activity
- Fraud: Corruption, bribery, embezzlement, falsification of documents, fraud, misrepresentation or false certification, misappropriation, procurement fraud, abuse of resources, exaction of funds or favours in return for a favour or benefit
- Standards of conduct and ethics: Abuse of United Nations privileges and immunities, aid and abetting in misconduct, assault, possession/sale of illegal substances, smuggling, violation of standards of conduct and ethics, theft, threats to a staff member
- Violations of financial rules and regulations: Misuse of office, procurement violations, violation of financial rules and regulations.

7. By 31 December 2009, 68 per cent of the 38 complaints received in 2009 had been reported to management. In addition, six complaints were carried forward from 2008, of which 100 per cent have been reported to management. The majority of complaints (77 per cent) received in 2009 were referrals and/or complaints from either management or personnel (see figure 3).

Table 1: Closing of complaint investigations in 2009

	Number	Percentage
Complaints closed after preliminary assessment	9	24%
Formal report issued to Executive Office	29	76%
Total cases investigated	38	100%
Cases leading to formal action or being closed by management	12	40%

8. Currently, DOS is implementing an informal tracking methodology for recording the implementation of recommendations. Work is in progress with the Management Information Services

Branch to develop an online database that will allow the concerned managers to be alerted regarding the recommendations and, consequently, to log action taken.

3. Staffing

9. An analysis of the staffing situation shows that in 2009 DOS had vacancies in management positions (Deputy Director and Chief of Internal Audit Branch) as well as in professional staff positions in the Evaluation Branch and Internal Audit Branch. The post of the Deputy Director was vacant for more than nine months and the Chief of Audit Branch post has been vacant for more than 10 months. Three audit specialists and two evaluation advisers were hired by the end of the third quarter of the year. The recruitment process for the posts of Chief, Internal Audit Branch, and the Information Technology Audit Specialist was initiated in the first and second quarters of 2009, respectively, and will continue into 2010. Table 2 below summarizes the authorized DOS professional vacancies and the vacancy time as of February 2010.

Table 2: 2009 DOS staffing (biennial support budget)

	Number of professional posts	Person-months	Person-months vacant	Percentage vacant
Director	1	12	0	0
Deputy Director	1	12	9	75
Internal Audit Branch	8	96	42	44
Evaluation Branch	3	36	5	14
Investigation Branch	2	24	0	0
Total for DOS	15	180	56	31

4. Resources

10. DOS receives funding from two sources: (a) the UNFPA biennial support budget (BSB); and (b) UNFPA programme resources (global and regional programme). In 2009, the DOS budget amounted to $4,541,317 of which $3,667,317 (81 per cent) was from BSB funds and $874,000 (19 per cent) from the UNFPA global and regional programme resources.

B. Inter-agency cooperation and support to United Nations reform

11. The UNFPA Division for Oversight Services actively supported inter-agency cooperation and United Nations reform and participated in several formal working groups including the United Nations Development Operations Coordination Office (DOCO) and professional networks, including the Representatives of the Internal Audit Services of the United Nations Organizations and Multilateral Financial Institutions (RIAS), the United Nations Evaluation Group (UNEG), and the Conference of Investigators of the United Nations system.

1. Audit Branch

12. DOS contributed to harmonizing inter-agency audit efforts and moving towards the "One UN" by leading the first inter-agency audit of the harmonized approach to cash transfers to implementing partners (HACT) in Viet Nam, undertaken with the participation of members from UNICEF and UNDP in

November 2009. The audit plan and programme was jointly designed by UNFPA (DOS), UNICEF (Office of Internal Audit) and UNDP (Office of Audit and Investigations). The Viet Nam report is under finalization. In this engagement, a new HACT audit methodology was introduced, tested and found to be useful in auditing the HACT process. The Viet Nam audit team recommended the use of the same methodology in future HACT audits. In 2010, DOS has scheduled UNFPA HACT audits in four countries, including a coordinated mission with UNDP and UNICEF.

2. Evaluation Branch

13. The activities of the Evaluation Branch are provided in detail in the Biennial report on evaluation (DP/FPA/2010/19) submitted to the present Executive Board session.

3. Investigation Branch

14. Informal exchanges with the investigative bodies of the sister agencies included sharing of methodologies, approaches and techniques to conduct investigations. This cooperation has allowed sharing of resources when required. On a more formal basis, DOS established an agreement with the Organization for Security and Cooperation in Europe (OSCE) for the cross-agency exchange of professional level investigative resources in 2010. In 2009, as noted earlier, DOS established its investigation procedures manual and a case registry system in collaboration with UNDP and UNICEF. The Branch staff also attended the annual Investigators Conference in Jordan, which was jointly hosted by the European Anti-fraud Office and the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA).

III. RISKS AND UNFPA

A. Risk classification

15. The risk classification adopted by UNFPA has been extensively described in earlier reports to the Executive Board (DP/FPA/2006/4 and DP/FPA/2007/14). In accordance with Executive Board decision 2009/2, paragraph 8, the risk model was revised to provide trends from a 2007 benchmark and was extended for providing a risk assessment of headquarters and cross-cutting functions. Additional information on the risk model can be found on the UNFPA website at http://www.unfpa.org/public/about/oversight.

B. Risk model

1. Headquarters and cross-cutting issues

16. The headquarters risk assessment, based on a qualitative methodology supported by an analysis of UNFPA as an organizational, financial and programme entity, identified a number of key global risks. Subjects with the potential of affecting the financial statements, or relating to core programme delivery and involved with change management were given priority for the oversight engagements 2010 plan. Further details of this assessment are provided in section C.

2. Decentralized business units

17. The purpose of the risk model is: (a) to assess the risk profiles of UNFPA decentralized business units (country offices) and decide on priorities of audit and oversight missions to be undertaken in a given year; and (b) to keep track of the risk exposure of decentralized entities. Over time, the model's results have proved to have a good predictive value, thus providing a reasonable assessment of the risk profiles of UNFPA country and other decentralized offices. The quantitative aspects of the model serve as the basis for further analysis, as well as for further discussion with management, the AAC and the United Nations Board of Auditors. However, this tool, primarily used as an oversight planning tool, does not substitute for an enterprise risk management (ERM) approach. In accordance with International Organization of Supreme Audit Institutions guidance, DOS believes that ERM is a necessary process to help the organization identify, evaluate and manage significant risks. This is one of the key initiatives in which UNFPA management is actively engaged.

18. In order to use a more stable and reliable risk model and to get better results, DOS was engaged in extensive consultations with management to expand ownership and acceptance of variables and parameters of the risk model by all parties in UNFPA. This joint effort resulted in a more stable and more reliable model. The results presented below in section C are based on the data provided by management to DOS at the end of 2009. The risk model calculates the probability of risks (likelihood); the impact in US dollar terms (expenditures during the year); and the vulnerability, which is defined as the expected value resulting from the multiplication of likelihood and impact.

C. Risk model results

1. UNFPA global risk assessment

19. The UNFPA global risk assessment is based on a joint assessment with representatives from all departments at UNFPA headquarters and representatives of selected regional offices. Feedback from DOS country office engagements in 2009, and critical subject discussions with the UNFPA Executive and Operations Committees and the Audit Advisory Committee were also taken into account. Furthermore, consideration was given to issues raised by the United Nations Board of Auditors during periodic consultations, specifically those issues that materially affect the UNFPA financial statements.

(a) Organization and staffing

20. Of the total staff of UNFPA, 17 per cent are at headquarters, 10 per cent are at regional offices, and 73 per cent are in country offices. Eighteen per cent of staff in all categories and 36 per cent of international staff are new or reassigned to their functions. UNFPA faces a high risk of managing a large volume of remote entities, with a large percentage of staff in new or reassigned functions. Thus, it is necessary to ensure that all staff have the necessary UNFPA-related competencies and skills in programming, monitoring and evaluation and accountability.

(b) Contributions and expenditures

21. The annual total contribution to UNFPA had increased from $669 million in 2007 to $739 million in 2009. The donor base consisted of 161 donors in 2009 for core funds. In addition, many of these 161 donors and other entities provided non-core contributions through various funding mechanisms. Of the

total expenditures of $650 million in 2009 (excluding expenditures on procurement and the Junior Professional Officers programme), 61 per cent was spent on reproductive health, including HIV prevention, 18 per cent on population and development, 12 per cent on gender and 9 per cent on programme coordination and assistance (see figure 4). Based on its provisional financial profile, UNFPA faces a high risk of managing a large and diversified donor base with several financing mechanisms, for example, core, programme, trust funds and a large expenditure on supporting the programme. The risk lies in managing the multiplicity of agreements and reporting arrangements required to manage these funds. Figures by region indicate that 37 per cent of the expenditure was in Africa, 18 per cent in Asia and the Pacific, 11 per cent in Latin America and the Caribbean, 9 per cent in Arab States, 4 per cent in Eastern Europe and Central Asia, and 21 per cent on the global programme in 2009 (see figure 5).

(c) Programme

22. The UNFPA programme is primarily delivered by its country offices by means of establishing annual workplans (AWPs) with implementing partners to deliver the agreed deliverables. These AWPs are managed by UNFPA to ensure delivery based on a set of indicators agreed between the respective country offices and the implementing partners. For example, in 2009, UNFPA had a total of 1,886 AWPs. Of these, 1,800 pertained to country offices and 86 to headquarters. Further, UNFPA had 986 implementing partners, of which 925 pertained to country offices and 61 to headquarters. Based on the current structure of programme delivery, managing a large number of AWPs and implementing partners is a high risk for the organization. Furthermore, an examination of the results framework indicates that the organization carries a multitude of indicators (see figure 6). For example, there are 87 high-level indicators in the strategic plan, 2008-2013, including in the management results framework, development results framework and the biennial support budget. In addition to these, the core programme managed through the AWPs consists of an average of 20 indicators per AWP. Since there were 1,886 AWPs in 2009, approximately 38,000 indicators made up the corpus of the UNFPA programme. Although many of the AWP indicators may be the same in many of the countries, the total numbers are indicative of the fragmentation of the programme, thereby increasing the risk of managing it. Additionally, there are the indicators in the office management plans, the performance appraisal and development (PAD) system for staff and a separate set of indicators for the reports to donors and the reports on thematic trust funds. UNFPA faces a very high risk in managing a programme with such a large volume of indicators.

(d) Ongoing initiatives

23. UNFPA had several ongoing initiatives in 2009, many of these were in response to Executive Board or United Nations system-wide requirements. The initiatives included the planning and implementation of the International Public Sector Accounting Standards (IPSAS) by 2012; establishment of the internal control framework (ICF); stabilization of the enterprise resource planning (ERP) system, Atlas (PeopleSoft™); implementation of the new organizational structure; creation of evidence-based programming, results-based management (RBM) and enterprise risk management; and implementing the fraud risk assessment, business continuity management and the recommendations of General Assembly resolution 62/208 on the triennial comprehensive policy review of operational activities for development of the United Nations system. UNFPA faces the risk of managing a large number of initiatives while also attempting to implement its core programme.

(e) Key global risks

24. In the view of DOS, UNFPA management faces a number of key global risks. These include managing: a high volume of remote entities; a high volume of new and reassigned/rotated staff; multiple financing mechanisms (global and regional programme, thematic trust funds, other trust funds); a high volume of implementing partners; a high volume of AWPs; a results framework with multiple planning and reporting tools; a high volume of indicators; and a number of ongoing initiatives. These key global risks are taken into consideration while selecting and performing audits and evaluations.

2. UNFPA country office risk universe

25. The second risk model encompassing decentralized entities gives three types of results: an entity-specific risk assessment (see figure 7); a change in the entity's risk compared with the preceding years (see figure 8); and a global risk assessment based on the aggregation of variables for each risk category (see figure 9). The figures are designed based on the same risk matrix as the one used in DP/FPA/2006/4. The risk universe used in the present report encompasses all country offices with the total expenditure amounting to $467 million in 2009, or 64 per cent of the UNFPA total annual expenditure. Regional and subregional offices have not been included in this review as the reorganization process has not yet been completed and 2007 data are not available to benchmark profiles of the new entities.

26. According to the analysis of data pertaining to UNFPA country offices, the 15 most vulnerable offices are in countries in the Asia and the Pacific and Africa regions. The regional profiles of the risk universe of UNFPA are relatively stable over time indicating that country offices in the Africa and the Asia and the Pacific regions are more at risk in comparison with other country offices in other regions. However, the vulnerability of UNFPA country offices in the Latin America and the Caribbean region remains relatively high. This situation might be explained by the level of co-financing. Since the risk model is benchmarking trends against the 2007 situation, it provides a useful insight into the dynamics of vulnerability affecting country offices. There is no significant difference in the overall risk exposure of country offices between 2007 and 2009. This may be due to the high level of volatility as indicated in figure 8.

27. With the availability of comparable data, the model also provides some indication of trends by risk categories (external, information technology, people, process and relationship -- for definitions see DP/FPA/2006/4 and DP/FPA/2007/14). The results of the analysis carried out in January 2010 do not differ from previous reports. Information technology, people and external risks remain low in comparison with relationship and process risks (figure 9). As noted in the previous report (DP/FPA/2009/5), the levels of vulnerability in relationship and process risk categories remain worrying. They can be respectively associated with the working modalities of UNFPA approved by the Executive Board (national execution, harmonized approach to cash transfers, sector-wide approaches, sector support) and with weaknesses in internal controls and programme monitoring. These issues, already mentioned in DP/FPA/2009/5, DP/FPA/2008/11 and DP/FPA/2007/14, should continue to receive greater attention by management. The issues can be solved by a continued commitment to evidence-based programming, results-based management, a proper internal control framework, and a pragmatic approach to enterprise risk management. As of January 2010, the implementation of the Executive Board decisions 2009/15 and 2009/18 is in progress.

IV. SIGNIFICANT OVERSIGHT ISSUES

A. Issues from country office and headquarters engagements

28. Nineteen reports were issued in 2009. Sixteen of these assessed UNFPA country offices and three assessed headquarters activities. It is important to recall that the country office assessments represent the entities with the highest risk, selected based on the risk model approved by the Executive Board. Among the 16 country offices assessed, internal controls and compliance with financial, administrative, human resources, information technology and programming requirements were deemed to be satisfactory in three, partially satisfactory in seven and unsatisfactory in six. The significant oversight issues identified from DOS country office engagements conducted during the last two years are summarized in table 3.

Table 3: Significant oversight issues by risk areas in the audited business units

Risk area and audit causes	Audit issue prevalence 2008	Audit issue prevalence 2009
Country offices		
External		
• Inadequate security, safety and protection of staff and of premises	Occasional	Occasional
Relationship		
• Inadequate results-based management and poor quality evaluations	Very common	Very common
• Lack of accountability in operational activities for development	Very common	Very common
• Poor programme planning, implementation and monitoring	Common	Common
Process		
• Deficiencies in internal controls are not properly resolved	Common	Occasional
• Inadequate budgeting, accounting and financial recording and reporting	Very common	Very common
• Inappropriate risk management	Occasional	Occasional
• Unsecure or inappropriate handling of income, deposits and cash	Occasional	Occasional
• Weak purchasing and disbursement procedures and practices	Common	Very common
People		
• Inappropriate human resource practices	Very common	Very common
Information technology		
• Deficiencies in information technology general controls	Very common	Very common
Headquarters units		
Relationship		
• Lack of accountability in operational activities for development	Very common	Very common
People		
• Inappropriate human resource practices	Very common	Very common
Information technology		
• Deficiencies in information technology general controls	Common	Common

29. For easy reference, the audit causes used in table 3 are further detailed in "UNFPA Audit Causes Classification" available at http://www.unfpa.org/public/about/oversight.

B. Follow-up of recommendations

30. Table 4 summarizes the status of implementation of the oversight recommendations reported by the audited business units. The total number of recommendations decreased from 1,052 in 2007 to 631 in 2009. The increase in the number of recommendations that are pending implementation or are under implementation is partially due to a more rigorous review of implementation by DOS, including the verification of supporting documentation in line with the United Nations Board of Auditors recommendation to DOS in 2009. In 2009, DOS and the UNFPA management worked together to strengthen the monitoring of pending recommendations by instituting a semi-annual follow-up and review. The status of implementation is uploaded in the comprehensive audit and recommendation database system (CARDS), the UNFPA web-based recommendation monitoring system, by the respective audited units or management. The status is then reviewed by the team leaders who conducted the engagements and/or the Chief of the Audit/Evaluation Branches in DOS. The implementation of all pending recommendations is also reviewed during all audit assignments and an update on the implementation of recommendations is included in the audit working papers. A concerted effort has been made to involve regional offices in the process. The implementation rate by audited units indicates that more effort is required for implementing recommendations and reporting actions taken to address the recommendations in the database. Discrepancies between data presented in table 4 and in previous reports result from a more rigorous follow-up by DOS in compliance with a recommendation made by the United Nations Board of Auditors.

Table 4: Implementation status by year of audit/oversight recommendations as at 31 January 2010

Year	Number of reports issued	Total number of recommendations	Closed	In progress	Inconclusive
2007	18	1,052	710 (67 per cent)	342 (33 per cent)	0 (0 per cent)
2008	20	882	443 (50 per cent)	434 (49 per cent)	5 (1 per cent)
2009	19	631	297 (47 per cent)	334 (53 per cent)	0 (0 per cent)
Total 3 years	57	2,565	1,450 (57 per cent)	1,110 (43 per cent)	5 (0.1 per cent)

C. Country programme expenditure and management

31. Country programme expenditure is processed through quarterly advances for implementation of activities listed in annual workplans by implementing partners. This modality is known as national execution (NEX). For 2008, the total NEX expenditures amounted to $173 million, of which $125 million (or 72 per cent) was required to be audited in 2009. These expenditures related to 1,363 NEX projects with 131 business units using the NEX modality, comprising 117 country offices, 10 headquarters units and four regional offices. As of 31 December 2009, UNFPA had received 1,013 of the 1,099 NEX audit reports due. Of those received as of 1 June 2009, DOS selected a representative sample of 76 audit reports. Fifty-five, or 70 per cent, of the sampled 76 reports were available for review. The sample reviewed represented total audited expenditure of $27.7 million, providing coverage of 31 per cent of the total annual NEX expenditure audited as of 1 June 2009.

32. The sample review conducted by DOS covers three areas: (a) audit outcome -- DOS reviewed the audit findings contained in the audit reports, the opinion and the possible impact on the overall management and implementation of NEX projects; (b) audit scope -- DOS reviewed the compliance with the terms of reference given to NEX auditors; and (c) audit administration -- DOS reviewed the NEX audit exercise with respect to the quality of the NEX auditors and how the NEX audits were administered by the responsible country office and business units.

33. The results of this review showed that there was continued progress in the quality of audit reports submitted as a result of management and country offices' efforts. However, compliance with the timeliness of submissions has decreased and fewer 2008 NEX reports were submitted on time. Meanwhile, the relative amount of unsupported expenditure has increased marginally.

34. The operating fund account (OFA)/NEX advances are funds provided to implementing partners on a quarterly basis for the implementation of UNFPA-supported programmes, projects and activities. On 13 January 2010, DOS expressed serious concerns to UNFPA management over the management of and the high OFA/NEX balance in 2009 amounting to $86 million. In response to these concerns, management at headquarters and country offices undertook a series of initiatives and efforts to reduce the OFA/NEX balance to $20 million over a 15-day period (see figure 11). The 80 per cent ($68.4 million) decrease in OFA/NEX advances raised questions about the adequacy of financial reporting by country offices.

1. Overall results for the national execution audits of 2008

35. Figure 12 provides an overview of the issues leading to 2008 qualified NEX audits. The picture presented is comparable to the results for 2007.

36. As illustrated in table 5, a comparison of the year-to-year performance suggests that 2008 management of NEX gave mixed results. Audits of the 2008 projects resulted in fewer qualified reports, which is a positive development. However, there was a similar level of unsupported expenditure as in 2007, and an increase in the number of reports that were missing or received late. The NEX auditors issued unqualified opinions on 742 audit reports (or 90 per cent) with a total of 82 audit reports (or 10 per cent) receiving a qualified or disclaimer of opinion.

Table 5: Comparison of 2007 and 2008 NEX performance

Indicator	NEX 2007	NEX 2008	Change
Qualified audit reports			
Number of audit reports with qualified or emphasis of matter opinion	178	82	improvement
Total expenditure for audit reports with qualified opinions	$17.8m	$8.3m	improvement
Unsupported expenditure	$1.1m	$1.2m	deterioration
As a percentage of total audited NEX expenditure	(1.1%)	(1.4%)	
Audit reports not submitted	$8.1m	$18.5m	deterioration
As a percentage of the NEX auditable expenditure	(7%)	(15%)	
Timing			
Audit reports submitted late	25%	40%	deterioration

2. Findings from oversight engagements in 2009

37. Sixteen oversight reports issued by DOS in 2009 identified 79 NEX-related recommendations. The majority of the issues identified relate to the management of fund advances, the capacity of the implementing partners to effectively implement the planned project activities, and the follow-up on the implementation of the NEX-related recommendations. The issues raised in the context of NEX are mostly due to deficiencies in the partnership between UNFPA and its implementing partners in addressing basic causes, as summarized in table 6.

Table 6: Country programme expenditure and management: 2009 findings, causes of deficiencies

Findings	Causes (International Organization of Supreme Audit Institutions – enterprise risk management classification)	Consequences
UNFPA		
Gaps in internal control, planning and annual workplan Inadequate terms of reference and selection of auditors	Poor programme planning, implementation, and monitoring	Evidence-based programming would allow UNFPA, in close collaboration with its implementing partners, to identify priorities, design strategies, set up a common RBM and translate them in detailed AWPs enabling operational and financial monitoring
Lapses in the implementation of audit recommendations	Too many implementing partners	The office may not have the capacity to follow up on its partnerships, thus consideration should be given to more focused implementation through fewer partners
Gaps in certificate of expenditure (COE) completion and controls	Too many annual workplans	The office may not have the capacity to monitor the AWPs, thus not getting COE and supporting documents on time
Large operating fund account	Inadequate competence, expertise and performance	Managers may not understand or may not be able to follow up on the NEX procedures, thus increasing the level of unsettled advances/OFA
Gaps in COE accounting and reporting	Inadequate budgeting, accounting and financial recording and reporting	This cause is closely related to the previous one. The office may make erroneous data entries in enterprise resource planning
Lapses in updating of the NEX database	Inadequate monitoring of internal controls	The lack of a practical document describing controls and ways to implement them (internal control framework), staff members, especially recently appointed ones, are not always able to follow procedures and controls
Poor planning and implementation regarding HACT	Lack of consistency between risk appetite and tolerance	Before entering into a partnership, country offices are requested to make a risk assessment. This is especially appropriate in HACT
Implementing partner		
Lapses in the implementation of audit recommendations Gaps in COE completion and controls	Poor programme planning, implementation, and monitoring	See above
Lapses in the implementation of audit recommendations	Inadequate competence, expertise and performance	The implementing partner may not have the capacity to keep track of UNFPA-related expenditure or the capacity-building effort by the United Nations country team remains too limited. As a result, expenditures are not properly monitored

38. As already noted in previous reports in 2007, 2008 and 2009, most problems faced by UNFPA in this area could be solved by improving controls and procedures at the level of country offices. The qualification of NEX audit reports is only a symptom of deficiencies in managing advances to implementing partners. NEX is a local management issue that requires a local solution, globally supported by a strong institutional commitment.

D. Evidence-based programming

39. In June 2009, the Executive Board approved the UNFPA evaluation policy (DP/FPA/2009/4) and in decision 2009/18, paragraph 10, requested UNFPA to develop guidelines on an evidence-informed methodology to improve programming and to strengthen results-based management. As of 31 January 2010, UNFPA management reports efforts to strengthen results-based management. Based on the DOS assessment of efforts to date, this issue merits review in the report to be submitted to the Executive Board in 2011.

E. International Public Sector Accounting Standards

40. The International Public Sector Accounting Standards are high-quality, independently developed accounting standards considered as the best practice by public sector organizations. In 2006, following the adoption of General Assembly resolution 60/283, the United Nations High-level Committee on Management (HLCM) endorsed the adoption of IPSAS for UNFPA and partner agencies. In November 2009, the United Nations Board of Auditors indicated that the phased implementation of IPSAS involved significant risks that could undermine the qualitative characteristics of UNFPA financial statements. Hence, UNFPA revised its strategy from "phased" to "full" implementation in 2012. This entails that UNFPA will follow United Nations System Accounting Standards (UNSAS) for the biennium 2010-2011, while moving forward with IPSAS implementation in 2012. In decision 2009/15, the Executive Board endorsed the decision to defer implementation of IPSAS to 2012.

41. During 2009, DOS was continuously engaged with IPSAS project teams, as an observer, to provide advisory support and assistance for the UNFPA transition to IPSAS. DOS supported the view that the complexity of IPSAS implementation required a detailed implementation plan including training activities, especially for staff in country offices. As of 10 February 2010, management informed the Audit Advisory Committee that the plan would be finalized by the end of February 2010.

F. Harmonized approach to cash transfers

42. The harmonized approach to cash transfers to implementing partners was launched with the aim to reduce transaction costs by simplifying and harmonizing rules and procedures among the United Nations funds and programmes, strengthening the capacity of implementing partners, and assisting in managing risks associated with the transfer of funds. In September 2009, RIAS established a principle of cooperation and coordination concerning the audit of HACT.

43. As an initial response to the above, DOS initiated a joint mission to Viet Nam, in November 2009, which included one auditor each from UNFPA, UNDP and UNICEF. The mission had the following objectives: (a) to assist in the development of the audit programme and methodology; (b) to conduct a joint HACT compliance audit using a draft of this audit programme; and (c) to review and make suggestions concerning the applicability of the 2005 HACT framework.

44. The results of the Viet Nam mission highlighted that, while for the most part agencies participating in HACT had put considerable efforts with regard to HACT implementation, significant gaps of non-compliance with the framework still remained. The HACT implementation plan was developed based on 2009 cash transfers while the framework requires that the plan is developed based on a full programme cycle. The micro-assessment threshold was increased to $500,000 from the recommended amount of $100,000 and the scheduled audit threshold was increased to $1 million from the recommended amount of $500,000. In addition, while the HACT framework was found useful, it needs further development that should be undertaken in consultation with the country offices participating in HACT implementation. The inter-agency engagement noted areas of improvement for the framework such as additional guidance on the definition of "HACT compliance" and the interaction between NEX and HACT. Furthermore, the framework should also be more explicit regarding the threshold requirements for micro-assessments and HACT audits. UNFPA will continue its collaboration with UNDP and UNICEF to conduct other joint HACT reviews and will consolidate findings and recommendations in a report to be presented to the respective heads of the involved funds and programmes and to be shared with the RIAS network.

G. Compliance with the oversight policy

1. Disclosure of internal audit reports

45. As of 31 January 2010, no request for disclosure of internal audit reports has been received and thus, no internal audit report has been disclosed.

2. Single audit principle

46. The implications of the single audit principle for UNFPA have been explained in detail in the 2009 report on internal audit and oversight activities (DP/FPA/2009/5).

47. The European Commission conducted verifications in eight country offices during 2008-2009. The country offices visited included Bangladesh, Nepal, Sudan and the United Republic of Tanzania, the liaison offices in Brussels and Copenhagen, and the headquarters office in New York. UNFPA has expressed its concerns that these European Commission verification missions could conflict with the single audit principle as mentioned above and with provision "IV. D" of the UNFPA oversight policy (see DP/FPA/2008/14). UNFPA has recommended that the United Nations Controller facilitate a meeting among all interested parties, in particular the European Court of Auditors and the Panel of External Auditors of the United Nations, the Specialized Agencies and the International Atomic Energy Agency, to reach definitive agreement on the way forward.

V. ENTERPRISE RISK MANAGEMENT

48. Enterprise risk management is the coordinated process to help UNFPA identify, understand and respond to internal and external risks, within its risk appetite and with reasonable assurance to its management to achieve its organizational goals and objectives. Management commissioned a consulting company to define the outlines of an ERM strategy and initiated the recruitment of a senior ERM adviser. As indicated above, UNFPA has strengthened its risk-based audit planning process, and the work on ICF and ERM has been initiated and is in progress.

VI. CONCLUSION

49. UNFPA has been a fast-growing entity, particularly in the last eight years. Total expenditures grew from $798 million for the 2002-2003 biennium to an estimated $1.4 billion for the biennium 2008-2009. Like any fast-growing entity in a volatile environment, UNFPA has developed responses to improve accountability. The present report would not be complete if mention was not made of the successful steps adopted by UNFPA during this eight-year period to enhance accountability. UNFPA has implemented a comprehensive set of policies contributing to the Fund's transparency and accountability. The most important ones are listed as examples in table 7 below.

Table 7: Policies related to accountability

Standards of conduct (2003)
General information (Policy on accountability)
Investigation and administrative leave (Policy on accountability)
Disciplinary process (Policy on accountability)
DOS Charter, AAC terms of reference (2006)
Accountability framework (2007)
Post-employment restrictions (2007)
Protection against retaliation (2008)
Sexual exploitation and sexual abuse, special measures for protection (2008)
Oversight policy (2008)
Fraud policy (2009)
Harassment, sexual harassment and abuse of authority (2009)
Evaluation policy (2009)

50. These UNFPA policies have been enforced with strong commitment from senior management in UNFPA and have been complemented by repeated trainings on ethics and fraud prevention, the creation of an integrity helpline (http://www.unfpa.org/help/hotline.cfm) and the creation of an Audit Advisory Committee whose report is communicated annually to the Executive Board. Implemented in 2004, the enterprise resource planning PeopleSoft™ software (Atlas) has transformed UNFPA by increasing the transparency of transactions and providing continuous information to managers. It has also enabled the internal audit and investigation functions to perform their duties with due diligence.

51. Despite these achievements, the 11 significant oversight issues identified in DP/FPA/2009/5 remain relevant and require continued attention by management to address existing challenges and prevent greater vulnerability. They are: (a) programme design and results-based management; (b) programme/project monitoring and evaluation quality, reliability and utilization; (c) national execution; (d) systemic and organization-wide risk management; (e) implementation of the new structure; (f) segregation of duties and roles in ERP; (g) compliance with organizational operational guidelines; (h) unsupported expenditures; (i) organizational succession plan; (j) IPSAS implementation; and (k) procurement.

52. UNFPA management practices have substantially evolved since 2000. They have reached a notable level of reliability and efficiency comparable to industry standards. The challenge for UNFPA in the forthcoming years is to consolidate its growth and to mitigate the risks highlighted in this report.

VII. RECOMMENDATION

53. The Executive Board may wish to take note of the present report and provide guidance on how to address the 11 significant oversight issues mentioned in the present report (DP/FPA/2010/20).

ANNEX 1: FIGURES

Figure 1: Internal audit activities

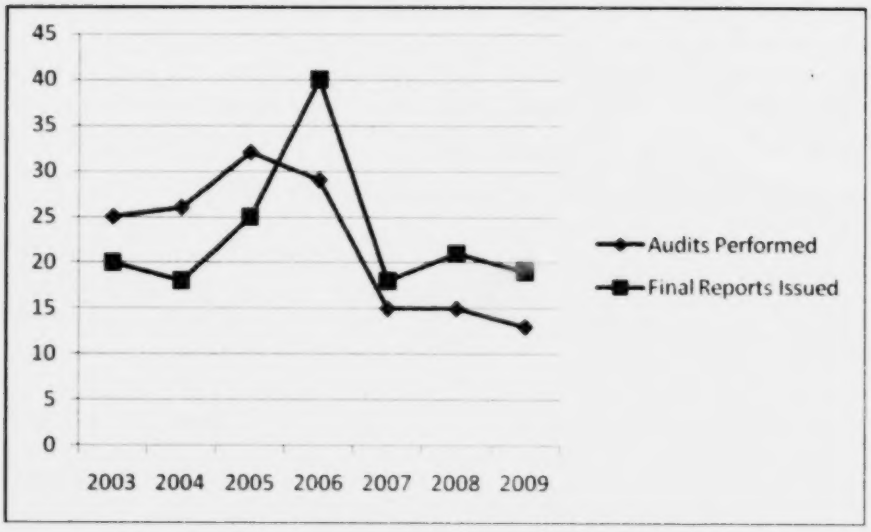


Figure 2: Types of complaints received in 2009

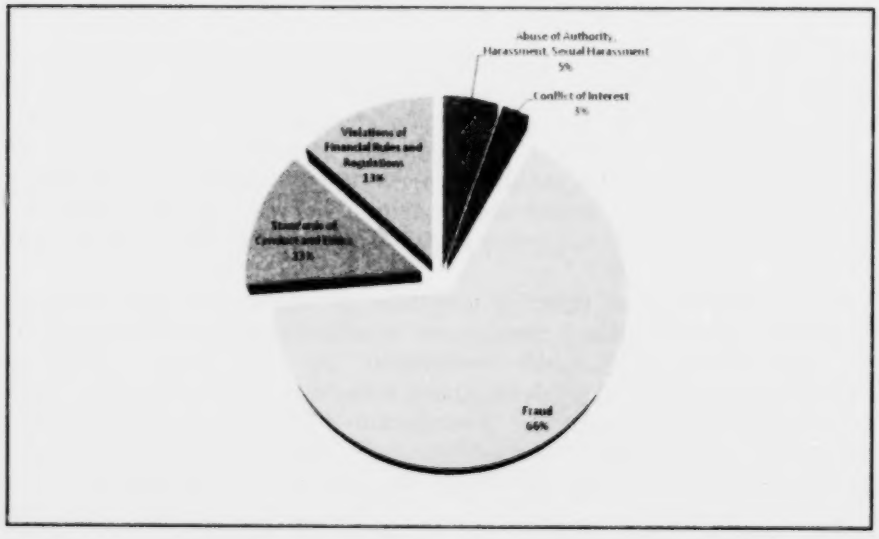

Abuse of Authority, Harassment, Sexual Harassment 5%
Conflict of Interest 5%
Violations of Financial Rules and Regulations 11%
Fraud 66%

Figure 3: Source of complaints received in 2009

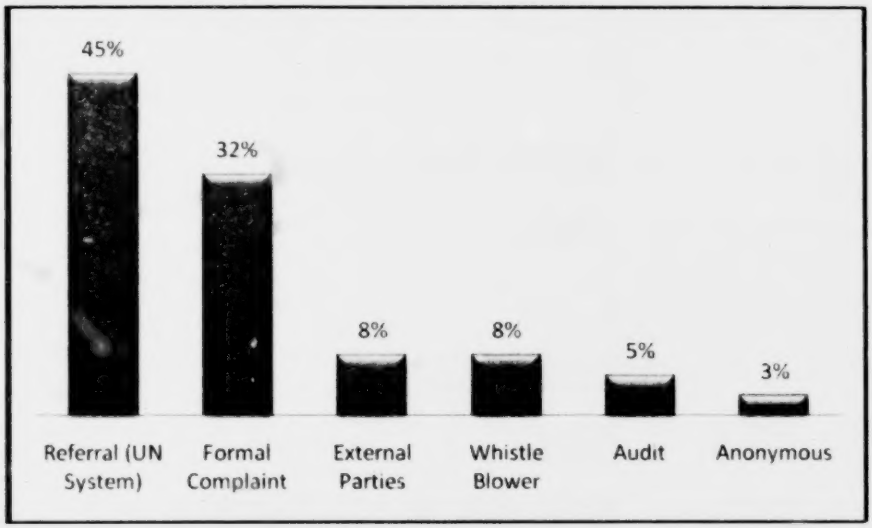


Figure 4: Expenditure by strategic component, 2008-2009

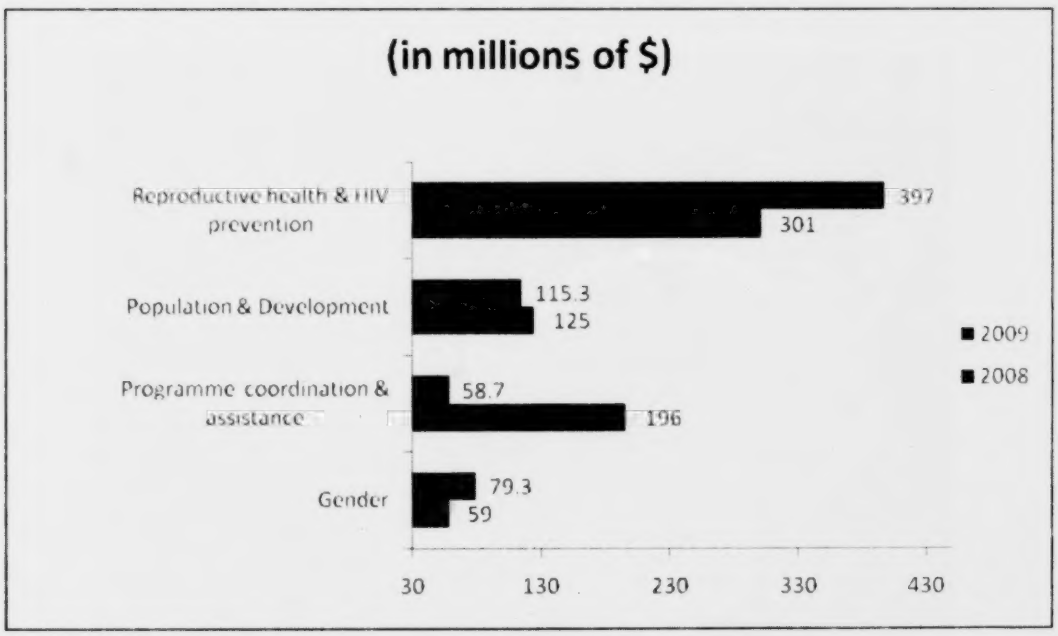


Figure 5: Expenditure by geographical area, 2008-2009

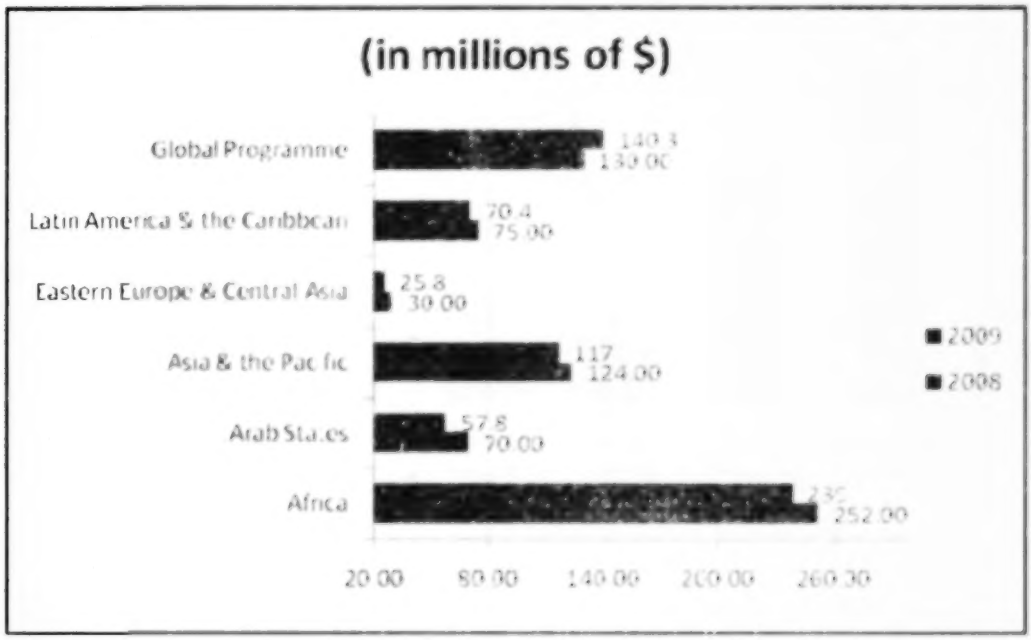


Figure 6: UNFPA results framework (indicators)

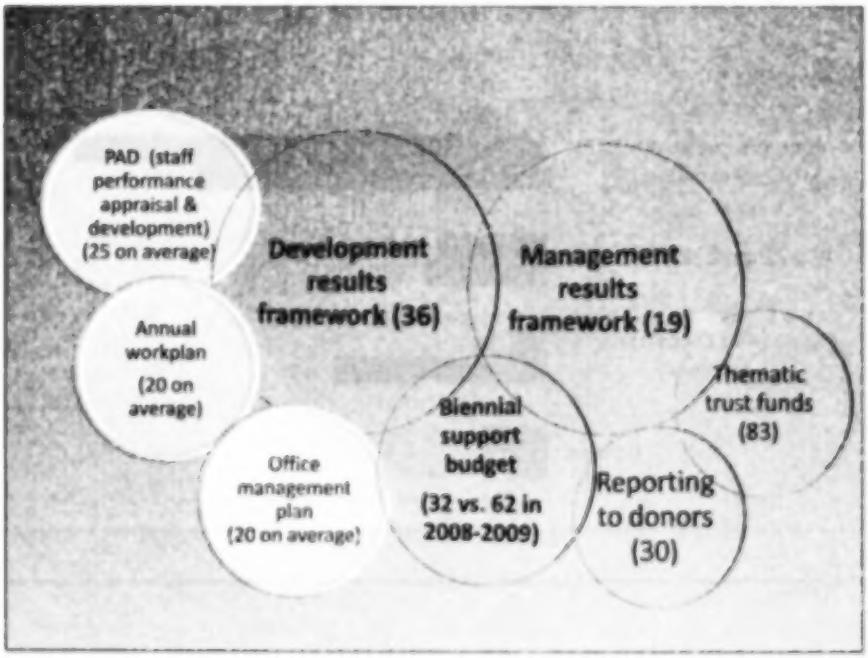

PAD (staff performance appraisal & development) (25 on average)
Development results framework (36)
Management results framework (19)
Annual workplan (20 on average)
Thematic trust funds (83)
Biennial support budget (32 vs. 62 in 2008-2009)
Office management plan (20 on average)
Reporting to donors (30)

Figure 7: Country offices risk matrix, 2009

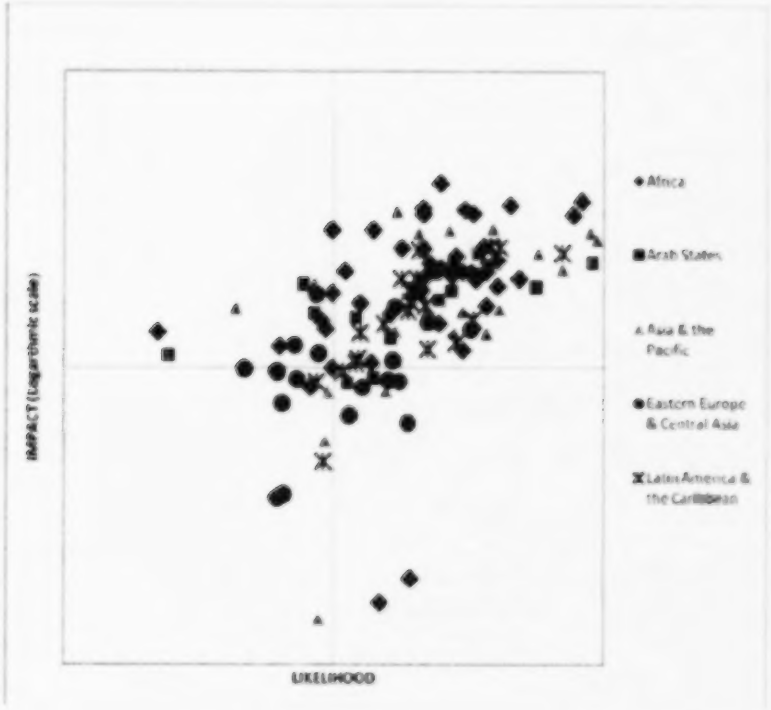


Figure 8: Country offices risk volatility (likelihood), 2007-2009, by UNFPA region

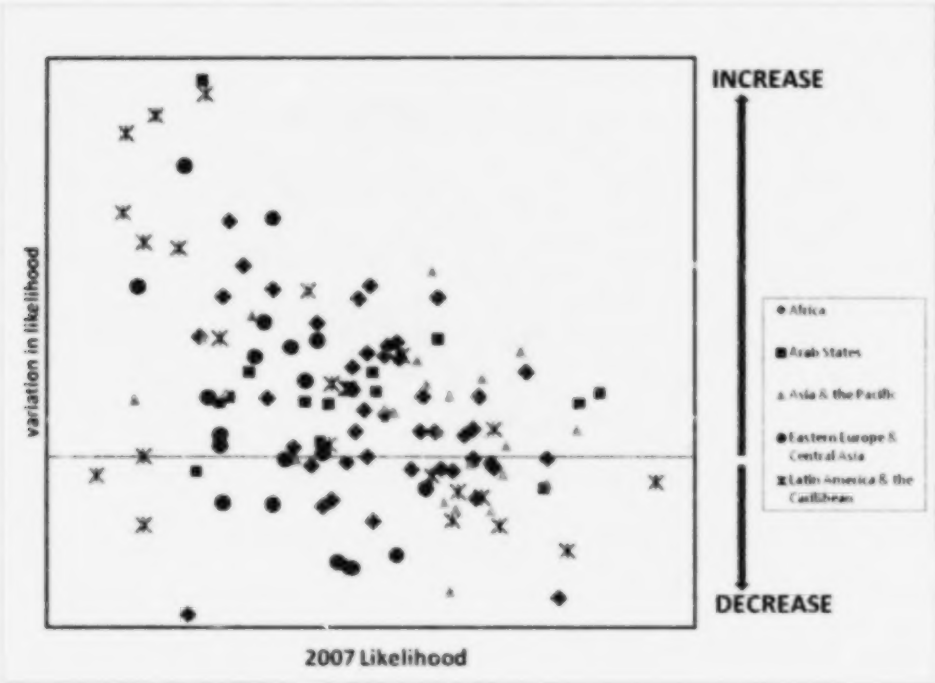


Figure 9: Global risk profile of UNFPA country offices

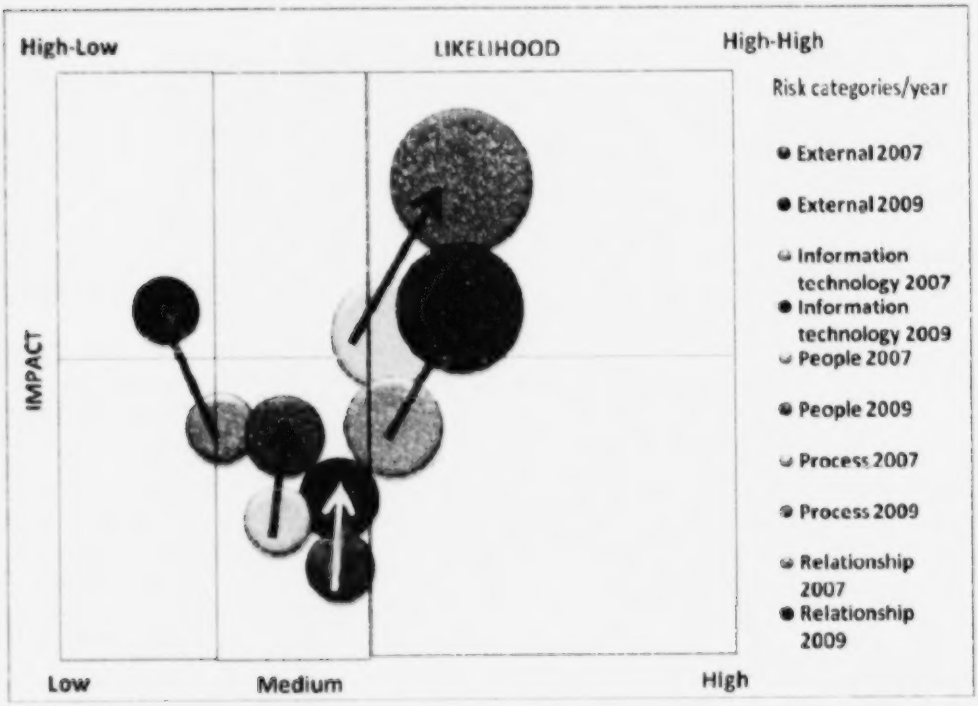


Figure 10: Trend in risks of country offices (likelihood), 2007-2009

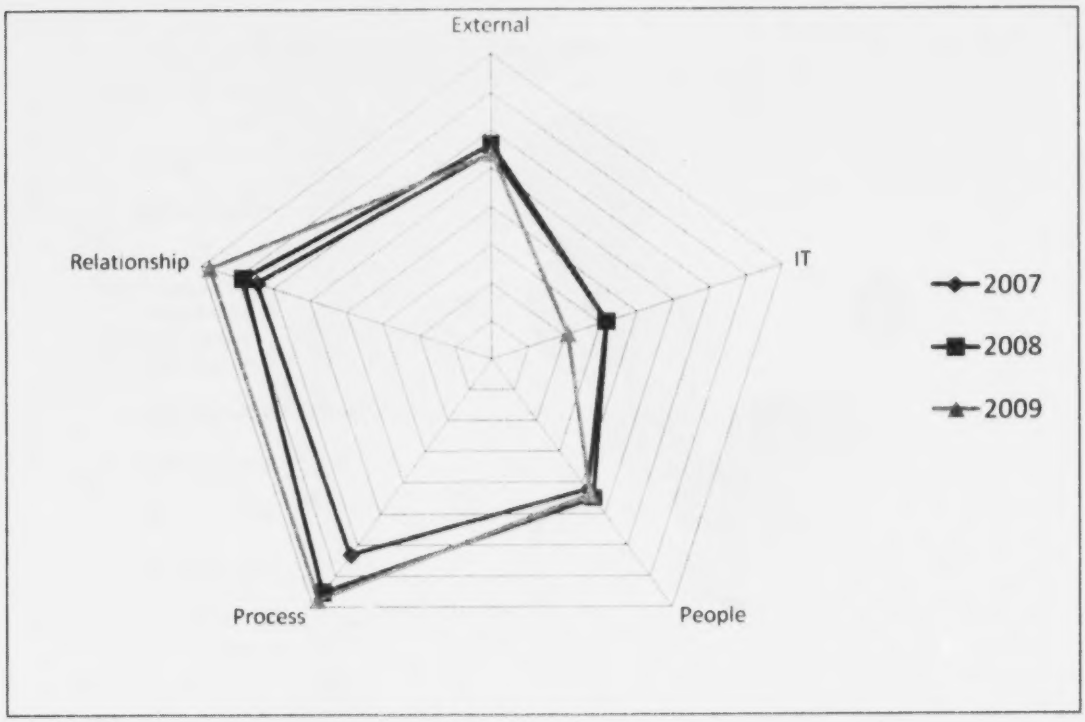


Figure 11: Movements in the operating fund account balance, 13-28 January 2010

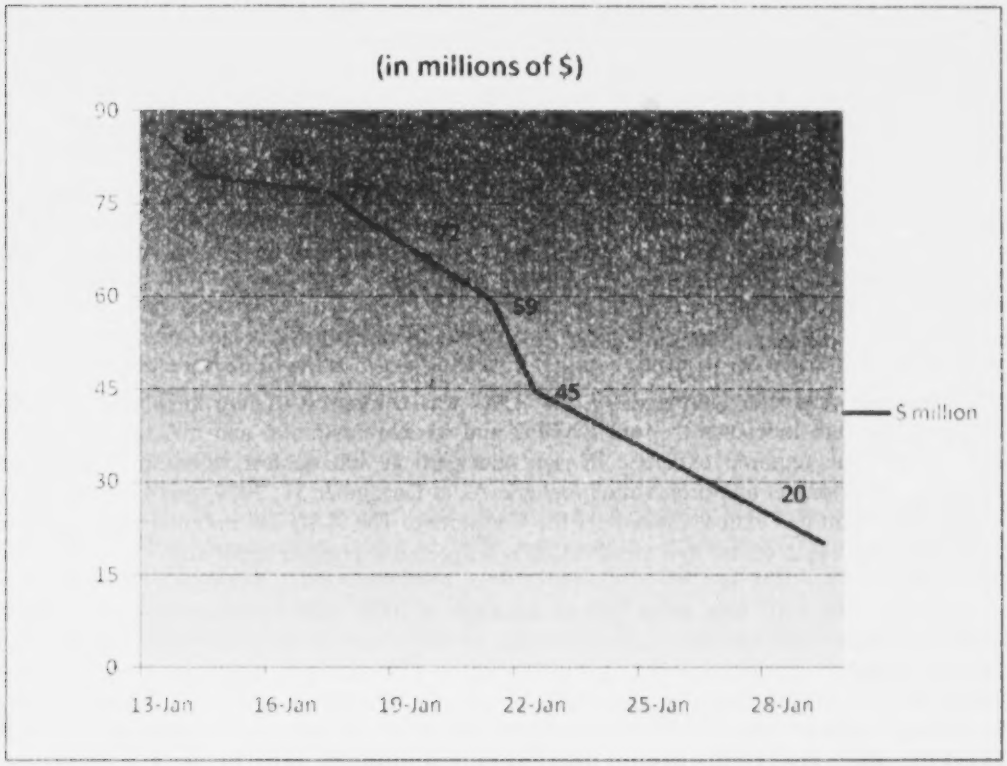
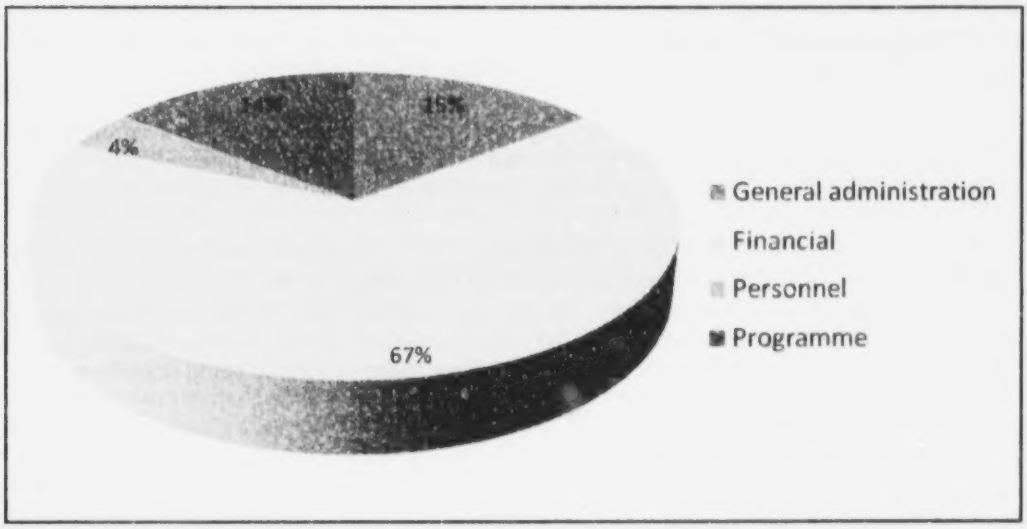


Figure 12: Issues leading to 2008 qualified national execution audits



ANNEX 2: ANNUAL REPORT OF THE AUDIT ADVISORY COMMITTEE

United Nations Population Fund
Audit Advisory Committee
2009 Annual Report to the Executive Director

Purpose

1. Pursuant to item 14 of its terms of reference (TOR), and in accordance with paragraph 14 C of section IV, subsection F of the UNFPA oversight policy, this fourth report to the UNFPA Executive Director provides a summary of the activities and strategic advice of the Audit Advisory Committee (AAC) of the United Nations Population Fund during 2009.

Audit Advisory Committee activities in 2009

2. Committee members: During 2009, the AAC was composed of five members, all external to UNFPA, and therefore independent from UNFPA and its administration and management. Committee members possess the required expertise in risk management and control, financial management and reporting, and development and programme matters. As at December 31, 2009, one Committee member, whose three-year term had ended, rotated off the Committee. The AAC has initiated an ongoing rotation and recruitment process to ensure that membership is staggered to provide continuity.

3. Meetings: The AAC held seven official meetings in 2009, three in-person meetings (in February, April and September) and four teleconferences (one in May, two in November and one in December). UNFPA participants in the meetings included the Executive Director, the two Deputy Executive Directors, programme and operational senior management, as relevant, the Director of the Division for Oversight Services (DOS), and the external auditors. As required, the AAC met without management present and had separate in-camera meetings with the Executive Director, the Director of DOS, and the external auditors. During the AAC meeting in April, the Committee held a joint session with the Audit Advisory Committee of the United Nations Development Programme (UNDP) to share issues of common interest relating to interdependencies between UNFPA and UNDP. The Chair of the UNFPA AAC also participated in the UNDP/UNFPA Executive Board annual session 2009, held in New York. In addition to the formal AAC meetings, Committee members continued their internal consultations and deliberations, document review, and provision of advice to UNFPA management via telephone and e-mail interaction.

4. Reporting: Minutes from the AAC meetings were prepared and approved. In accordance with item 13 of the AAC TOR, the Committee formally reported back to the Executive Director after each meeting. The Committee or Chair briefed the Executive Director either in person or by telephone.

5. Assessment of the Committee's effectiveness: The Committee undertakes an annual self-assessment exercise to confirm the appropriateness of its TOR and assess its effectiveness. The Committee also makes recommendations, as necessary, during each meeting and follows up periodically on the implementation of those recommendations by UNFPA management. Of the recommendations made by the AAC during 2009, most have either been implemented or are in the process of being implemented.

6. Performance assessment of the Director of the Division for Oversight Services: In accordance with its TOR, the AAC (via its Chair) provided written input on the performance of the Director of DOS to the UNFPA performance appraisal and development system.

7. Field visits: To augment the Committee's understanding of the UNFPA mission and restructuring efforts, all AAC members participated in field visits to strengthen their knowledge of UNFPA operations. The following field visits were undertaken: regional offices in Panama, South Africa and Thailand; country offices in Morocco, Nepal, Peru and Sri Lanka. In total, Committee members have devoted over 22 person days to on-site activities in regional and country offices. With the concurrence of the UNFPA Executive Director, AAC members may visit additional field locations in the latter half of 2010.

8. External auditor coordination and communication: The AAC meets regularly with the UNFPA external auditor, the United Nations Board of Auditors, to share relevant information and understand strategies implemented to ensure overall audit coverage of UNFPA, which includes the work performed by DOS. The Committee had substantive discussions with representatives of the Board of Auditors at each of its in-person meetings.

Audit Advisory Committee strategic advice in 2009

9. Issues of concern identified by the AAC, along with the strategic advice provided to the Executive Director and UNFPA senior management in 2009, are summarized below. The AAC thanks UNFPA management for its receptivity to the Committee's advice and the Fund's actions to address the issues.

10. In 2008, the AAC noted that UNFPA was experiencing an internal multilayered transformation. This transformation continues. During 2009, UNFPA made substantial progress in implementing a new organizational structure while ensuring that the restructuring supported United Nations reform. However, UNFPA continues to face significant human resource, administrative and operational challenges. In addition to restructuring, UNFPA is undergoing modifications to its enterprise resource planning system (Atlas), its financial policies and practices to support implementation of the International Public Sector Accounting Standards (IPSAS), development of an enterprise risk-management strategy, programming enhancements to address new aid modalities, and changing operational relationships with implementing partners and other donor agencies.

11. Through the Fund's regular updates to the Committee, the AAC has noted UNFPA progress in realizing its reorganization, intended in part to support a more field-focused and results-oriented UNFPA. In this respect, the AAC has recommended that UNFPA establish a means to assess whether the intended results of the restructuring process are achieved. The AAC has stressed the importance of identifying the key performance indicators and explicit success criteria that can be used to measure the impact of restructuring on UNFPA effectiveness and results. While some internal human resource and administrative challenges have been noted during the restructuring process, often exacerbated by unforeseen external matters such as location choices and physical premises, the AAC commends UNFPA for its continued efforts to responsibly address all such issues.

12. With respect to restructuring, the AAC has noted that DOS is proposing to conduct an audit of the restructuring process in 2011, rather than 2010, as originally proposed. The Committee believes that DOS should continue playing a prominent role with respect to UNFPA restructuring by advising on an ongoing basis whether the overall internal control framework is appropriate and recommending improvements or refinements that could be implemented immediately.

13. The AAC is updated regularly on UNFPA succession and workforce planning as part of the Fund's human resource strategy and business continuity planning. The AAC supports the efforts put in place by UNFPA management to mitigate the risks identified. The AAC noted during its field visits, both in 2008 and 2009, that operational staff expressed concerns and requested clarity with regard to roles and responsibilities among headquarters, regional, subregional and country offices. The AAC reiterates the importance of focusing additional attention on the human resource dimension of change and organizational continuity.

14. Atlas, the enterprise resource planning system of UNFPA, is administered by UNDP. The AAC regularly discusses the critical services provided by UNDP and its Atlas system functionality. While the system upgrade in early 2009 resulted in a number of improvements, significant performance challenges were also encountered. Based on discussions with management, the AAC understands that UNFPA and UNDP worked collaboratively to stabilize Atlas and address such performance and system issues as expeditiously as possible. This included hardware migration to a new operating platform during 2009, which AAC understands has improved capacity and realized cost savings. The AAC stresses the importance of ensuring that proposed future revisions and upgrades to Atlas are planned in a timely manner, coordinated with other administrative and operational initiatives, and appropriately resourced.

15. In its meeting on 22 April 2009, the UNFPA IPSAS Board recommended a "phased approach to IPSAS adoption" starting in 2010. The AAC was briefed regularly on progress relating to that approach. To this end and in view of UNFPA-wide implications of the implementation of IPSAS on financial reporting and the underpinning financial policies, the AAC reviewed and provided recommendations to management on several draft financial policies and the UNFPA Financial Regulations and Rules before they were submitted to the Executive Board for approval.

16. As noted above in paragraph 14, UNFPA relies on UNDP as its service provider for Atlas, and both UNFPA and UNDP use Atlas as their enterprise resource planning system. Substantial system changes must be made to prepare Atlas for IPSAS implementation. AAC understands that UNDP has proposed IPSAS adoption for 2012 or later. The AAC recommended in April 2009 that all Atlas partners proceed on IPSAS implementation in a synchronized fashion and create a joint IPSAS board with the appropriate level of authority.

17. In decision 2009/15, the Executive Board (at its second regular session held in September 2009) endorsed the decision of UNDP, UNFPA and UNOPS to defer implementation of IPSAS to 2012. In November 2009, the AAC was advised that UNFPA would no longer follow a phased approach to implementing IPSAS, but would undertake "full" implementation in 2012. This decision appears to have been made in part to align with UNDP and in view of advice from the United Nations Board of Auditors. The AAC understands that UNFPA will continue to effect accounting change enhancements over the interim to the extent that United Nations System Accounting Standards (UNSAS) allow. The AAC has recommended that a revised IPSAS implementation plan be prepared that includes a risk analysis and mitigation strategy that addresses both accounting and operational risks and identifies relationships with other UNFPA initiatives such as revisions to Atlas, the internal control framework, and restructuring. The AAC also emphasized that a critical success factor facilitating successful implementation of IPSAS adoption is strong leadership by management. Further to a recommendation by the AAC, UNFPA management has now initiated regular dialogue with the Board of Auditors concerning IPSAS implementation.

18. The AAC further recommended that UNFPA management continue to collaborate with the United Nations Board of Auditors, as appropriate, on relevant financial matters including the Fund's financial statement reporting to ensure common understanding, particularly on technical issues. This is important in view of the forthcoming audit by the Board of Auditors on UNFPA financial statements for the biennium ended 31 December 2009.

19. In accordance with the AAC TOR, the Committee is expected to "review policies significantly impacting financial management and reporting; the internal audit, investigation and evaluation functions; and the effectiveness of UNFPA systems of internal control and accountability". In 2009, the AAC reviewed and made recommendations on various policies, as noted. The AAC also reviewed issues and made suggestions relating to the single audit principle. The Committee stressed the importance of being consulted before policies that significantly impact on UNFPA business processes and operations are finalized.

20. The AAC reviewed the UNFPA evaluation policy prior to its approval by the Executive Board at the annual session 2009. The AAC recommended that an overall policy statement be elaborated to identify explicitly the results to be achieved by the evaluation policy, such that its impact could be measured in the future. The AAC stressed the importance of clearly identifying the roles of DOS and management in conducting evaluations as well as the means by which the independence of evaluations conducted by management would be assured. The AAC expressed concern as to whether UNFPA, and particularly DOS, had sufficient resources and appropriately qualified people to effectively implement the policy in the short-term.

21. In 2007, the AAC supported a DOS recommendation that the UNFPA internal control framework be revised to be fully compliant with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) standards. The internal control framework principally provides guidance with respect to control and accountability of UNFPA operations particularly at the country level. In 2008, the AAC was updated on periodic revisions to the control framework. In 2009, UNFPA management engaged a consulting firm to review the internal control framework. The AAC reiterates its position from previous years: in view of ongoing changes to UNFPA internal financial and operational policies and practices, and the evolving external environment, additional and ongoing revisions are required to ensure that internal control guidance remains relevant, practical, and is fully compliant with COSO standards.

22. In accordance with item 15 of its TOR, the AAC regularly reviews "DOS's function, including its charter, scope, plans, activities, resources, staffing and organizational structure". The AAC reviewed, made recommendations, and supported revisions to the DOS Charter to align with the UNFPA accountability framework, oversight policy, evaluation policy and recent Executive Board decisions.

23. The AAC reviewed DOS performance for 2009. The AAC noted that DOS is in the final stages of completing its internal audit procedure manual; has initiated a self-assessment in preparation for an external quality assessment; and has adopted a more succinct internal audit reporting process. DOS is now focusing on the overall cause of deficiencies or means to address risk exposures, and the number of observations and recommendations are limited to those of a significant nature reducing the reports to a practical length. This has expedited report issuance and supports more opportune implementation of audit recommendations; thus demonstrating the value added by DOS in contributing to the improvement of UNFPA operations.

24. Further to a 2008 recommendation by the AAC, DOS has now developed a system whereby it monitors implementation of the recommendations from internal audits and regularly follows up with clients on the status of implementation. In this way, DOS exercises a timely and more direct role in internal audit follow-up processes, particularly for significant audit observations or reports considered unsatisfactory. The results of such follow-up activities help support UNFPA management's accountability by providing objective and independent evidence-based assessments concerning the status of management actions to implement recommendations made as a result of UNFPA oversight activities.

25. The AAC recommended approval in principle of the DOS audit plan 2010 and reviewed the DOS business plan 2010. The AAC recognizes the continued efforts of DOS to provide overall assurance and advisory services to UNFPA to support achievement of UNFPA strategic objectives. The AAC also supports DOS representation at meetings and provision of advice relating to key UNFPA business initiatives such as implementation of IPSAS, enterprise risk management, results-based management, national execution, and the harmonized approach to cash transfers to implementing partners (HACT). Through provision of such ongoing advisory services, DOS contributes on a timely basis to more effective controls and/or operational efficiencies.

26. The AAC supports the DOS risk-based annual planning process and the use of the risk model. Further to a recommendation made by the AAC, DOS is now providing a risk assessment of headquarters and cross-cutting functions in addition to assessing the risk universe of country offices.

27. The AAC also supports DOS efforts to contribute to harmonizing inter-agency audit efforts by leading the first inter-agency audit of HACT in Viet Nam undertaken with participation of members from UNDP and UNICEF in November 2009.

28. The AAC has repeatedly stressed the importance of identifying whether and how DOS resource levels and capacities impact on its ability to implement its charter and provide the level of assurance necessary to support UNFPA strategic objectives. In this respect, ongoing issues with regard to the adequacy of DOS resources and recruitment challenges have been highlighted to the AAC. Many of these have been addressed during 2009. An interim Deputy Director was hired prior to the formal appointment of the current Deputy Director. Additional audit specialists and evaluation advisers were also hired. The AAC appreciates the challenges of recruiting and retaining suitable candidates for DOS professional positions and how this may impact on the capacity and overall results achieved by DOS. Further, in complex and changing internal and external environments, such as those of UNFPA, a steep learning curve exists for all newly recruited employees. This underscores the importance of a flexible and appropriate staff learning plan that includes professional training to ensure continuous learning opportunities. As such, it is critical that DOS has the capability needed and resources required to ensure that sufficient coverage exists in internal auditing, evaluation and investigation work at UNFPA.

29. Also, in accordance with paragraph 15 of the DOS Charter, it is critical that "DOS has full, free, and unrestricted access to any and all of UNFPA records, physical properties, and personnel relevant to any UNFPA functions under review". The AAC learned that during 2009, DOS was unable to initiate at least one of its internal audits because documentation was not made available, and DOS has encountered other challenges in this respect during the conduct of its work. This can impact accomplishing the DOS mission which, in part, "provides the Executive Director with independent and objective assurance and with advisory services designed to add value and improve UNFPA operations".

30. Because the ethics function is a key contributor to UNFPA accountability and oversight, the AAC reviewed the mandate and current structure of the UNFPA Ethics Office. In this respect, the AAC supports the direct reporting relationship of the Ethics Adviser to the Executive Director and encourages the Ethics Adviser to support the management decision-making process, adding ethics dimensions to key strategic decisions or policy formulation.

31. In accordance with its TOR, the AAC reviewed the unaudited draft of the UNFPA Financial Statements for the year ended 31 December 2008, prior to its finalization. The AAC recommended some revisions to improve the clarity and quality of communication of the financial information for that year and for the future. In addition, the AAC provided some overall advice to the Executive Director. While the AAC recognized that the Statements would not be audited, they would be made public and as such could have implications for UNFPA. Good financial control discipline requires that the Statements be supported by Letters of Representation. While these had been partially obtained from UNFPA field offices, none had been provided by the UNFPA main service provider – UNDP; the UNFPA legal adviser (to provide asserted and unasserted claims, some of which may involve privilege); and the chief financial officer and the deputy executive directors – to provide assurance that financial reporting controls exist and operate effectively. These letters should be supported by assertions from management across UNFPA.

32. The AAC is briefed regularly on UNFPA actions to implement the recommendations made by the United Nations Board of Auditors and supports UNFPA efforts to address the recommendations in a systematic and ongoing manner. In 2008, the AAC suggested and now reiterates that, as a best practice, DOS follow up the implementation status of the recommendations of the Board of Auditors. In this way, DOS could add value by supporting UNFPA management in ensuring that the actions taken to address observations are appropriate and complete. In addition, the Board of Auditors might be able to place reliance on the work of DOS and not necessarily perform additional in-depth follow-up work.

33. The national execution (NEX) modality continues to be an area of high risk. For the biennium ended 31 December 2007, the United Nations Board of Auditors concluded with a "modified opinion with one emphasis of matter". The emphasis of matter related to the concern of the Board of Auditors with respect to expenditures incurred through the NEX modality. The AAC is briefed regularly on the efforts of UNFPA management and DOS to identify and address the underlying causes and challenges in managing and reporting on NEX. For example, in June 2009, DOS performed an assessment of UNFPA management of 2008 NEX expenditure. The objective was to obtain reasonable assurance that UNFPA resources were managed by implementing partners in accordance with their contractual arrangements with UNFPA and to provide an opinion of the validity and coverage of the assurance provided by independent auditors. The oversight assessment indicates that for the period covered, DOS could not provide such assurance on a large portion of the 2008 NEX auditable expenditure balance, because not all the necessary supporting documentation and records were available, and adequate internal controls were not in place.

34. The AAC understands that UNFPA senior management has designated NEX as one of its highest corporate priorities. The AAC recognizes the challenges that UNFPA faces to ensure appropriate accountability for financial and programme results while working under changing aid modalities, for example, sector-wide approaches and HACT. The AAC understands that NEX is not merely an accounting and reporting challenge but an issue of programme planning, implementation, and monitoring as well as project management and administration. The AAC has noted the actions taken by UNFPA management to address NEX concerns. During 2009, a new NEX audit management system was completed for the 2009 NEX audit cycle, and capacity development interventions were tailored to meet the local needs of regions and countries. In this respect, the Committee supports the efforts of UNFPA to strengthen management

controls and practices at the local and headquarters levels and encourages further initiatives to address the underlying causes of NEX challenges and issues.

35. To assist in managing for results, the AAC recommended in 2008 that UNFPA management develop and implement a formal integrated enterprise risk-management strategy. In 2009, UNFPA initiated a study to recommend the steps for its development by reviewing risk management-related frameworks currently existing in UNFPA that could support the strategy. The AAC commends UNFPA efforts to date. The AAC reiterates the importance of integrating those frameworks and developing the additional systems and processes necessary to support and sustain a comprehensive enterprise risk-management strategy that would focus on results and identify and address risk exposures throughout the organization and in its external relationships. The AAC also suggests that additional focus is needed on issues of governance, management and administration, including the role of the Executive Board and the AAC, and relationships with other United Nations agencies. The AAC has noted that an ERM Senior Adviser position was established in 2009 and recruitment is under way.

36. As noted in 2008, once an integrated enterprise risk-management strategy is fully developed and implemented in UNFPA, the AAC will be in a position to appreciate more completely UNFPA mitigation strategies including the Fund's risk appetite and residual risks. The AAC will then be able to contribute more directly to the achievement of UNFPA strategic and business objectives by providing extensive overall strategic advice to the Executive Director on organization-wide risk exposures. The AAC looks forward to continuing its dialogue with UNFPA management relating to the integration of mitigation strategies for the specific and discrete issues of concern with those needed for the potential overall and fundamental risks to the organization.

Overall conclusion

37. The AAC has reviewed the report on UNFPA internal audit and oversight activities in 2009 (DP/FPA/2010/20) being submitted to the Executive Board, taken note of the key global risks and significant oversight issues identified, and concurs with its contents. The AAC appreciates the substantial progress made by UNFPA over the last year in an environment marked by many challenges.

38. The AAC expresses support for the continued strengthening of accountability and assurance processes in UNFPA. The Committee trusts that the strategic advice and recommendations provided to UNFPA management in 2009 contribute to developing and sustaining the appropriate oversight and accountability framework along with the necessary supporting systems and implementing practices.

ANNEX 3: MANAGEMENT RESPONSE TO THE ANNUAL REPORT OF THE AUDIT ADVISORY COMMITTEE

1. The UNFPA management response to the annual report of the Audit Advisory Committee (AAC) is provided as per decision 2008/37 of the Executive Board. Further information on a number of topics covered in this response can be found in the comprehensive management response to the UNFPA internal and oversight activities in 2009, made available on the UNFPA Executive Board website.

2. UNFPA acknowledges and welcomes the 2009 annual report of the Audit Advisory Committee. Throughout 2009, UNFPA continued to benefit from regular consultations with the Audit Advisory Committee and would like to express its gratitude to the chair and members of the Committee: their commitment and guidance have been invaluable in further strengthening UNFPA management practices.

Change-related initiatives (paragraph 10 of the annual report of the Audit Advisory Committee)

3. In 2009, UNFPA continued the work initiated in the past years on several change-related initiatives, aimed at making UNFPA more field-focused, efficient and effective. Through a sound project management approach and with continued leadership from the senior management, UNFPA has made progress on Atlas implementation, International Public Sector Accounting Standards (IPSAS) implementation, enterprise risk management (ERM) development, the optimization of results-based management (RBM), and simplification and harmonization.

Reorganization (paragraphs 11-13 of the annual report of the Audit Advisory Committee)

4. Despite unforeseen external challenges, UNFPA has also further implemented and consolidated its new organizational structure. In order to monitor whether the intended results of the restructuring were achieved, the Fund has identified a set of indicators that capture the quality of support provided by the regional offices to the country offices, which will be tracked and analysed annually. A comprehensive review will also be part of the strategic plan midterm review that UNFPA will report on to the Executive Board in 2011.

5. In the course of the reorganization, terms of reference defining the overall purpose, roles and responsibilities were developed for each of the organizational units. To support the new organizational structure, and to ensure its effective and efficient functioning, a Business Practices Unit was set up in 2009 as part of the UNFPA Programme Division. The unit is currently working on streamlining and simplifying UNFPA processes, with a view to institutionalizing business practices and ensuring that roles and responsibilities at all organizational levels are clarified. In addition, UNFPA undertook initiatives specifically designed to support the change process, including the introduction of measures to preserve knowledge and facilitate immersion into new functions, team-building exercises, provision of staff guidance and counselling, as well as the development of learning and training opportunities.

Enterprise resource planning (paragraph 14 of the annual report of the Audit Advisory Committee)

6. UNFPA is working closely with Atlas partner organizations to proactively anticipate and resolve any issues that may arise with regard to Atlas, including software quality assurance, human resources management, incident prevention and tools upgrade.

IPSAS and financial statements (paragraphs 15-18 of the annual report of the Audit Advisory Committee)

7. UNFPA consulted regularly with the Audit Advisory Committee on IPSAS implementation and, based on the Committee's recommendation, is updating and revising its IPSAS implementation plan to take into account the implications of "full" IPSAS adoption in 2012. The plan, which contains risk analysis and suggested mitigating actions, includes the activities that will need to be developed to ensure that the necessary changes in accounting policies, business practices and systems take place to support the transition from United Nations System Accounting Standards (UNSAS) to IPSAS. A detailed training plan to support the IPSAS implementation strategy is being finalized, with a specific focus on field staff.

8. The first draft of the UNFPA mock financial statements, which included expanded disclosure notes, was reviewed by the United Nations Board of Auditors. The mock statements showed both the proposed transitional statements for the 2010–2011 biennium and the IPSAS-compliant statements starting with fiscal year 2012. In continuing its support for the IPSAS implementation process, UNFPA senior management will ensure coordination with other United Nations agencies, as well as constant liaison with the Board of Auditors.

Evaluation policy (paragraph 20 of the annual report of the Audit Advisory Committee)

9. The role of the Division for Oversight Services (DOS) was clarified in the evaluation policy approved by the Executive Board at its 2009 annual session, as well as in a circular sent to all staff by the Executive Director on 29 October 2009, namely: the DOS role is to provide assurance on the quality and the reliability of the measurement of the results and impact of UNFPA projects and programmes. Since the approval of the evaluation policy by the Executive Board, UNFPA management has taken important and significant measures to strengthen the evaluation capacity of the organization. A number of initiatives are under way to enhance both the coverage and quality of evaluations. Due attention is also being paid to ensuring a better utilization of evaluation findings for programme improvement.

Internal control framework (paragraph 21 of the annual report of the Audit Advisory Committee)

10. A review of the UNFPA internal control framework was conducted with the support of a management consulting firm to bring the UNFPA internal control framework into alignment with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. This has produced a listing of all control activities in the six major business processes of procurement, information technology, resource utilization, payroll, fixed assets and travel, as well as an assessment of these controls against industry best practices. A similar exercise covering the remaining key business processes will be undertaken during 2010.

DOS role and resources (paragraphs 25 and 28 of the annual report of the Audit Advisory Committee)

11. UNFPA management welcomes the provision of advice by the Division for Oversight Services relating to key UNFPA business initiatives. In this context, the efforts undertaken by DOS together with UNDP and UNICEF on implementation of the harmonized approach to cash transfers to implementing partners (HACT) have proven very timely and useful.

12. UNFPA management is committed to ensuring that adequate resources are available to DOS. Over the years, budgetary resources available to DOS have been significantly increased. In 2009, DOS faced a shortage of staff due to a high number of vacancies. However, most of these vacancies have now been

filled and, with the recruitment under way for two additional positions, DOS capacity issues will soon have been addressed.

Access to information (paragraph 29 of the annual report of the Audit Advisory Committee)

13. UNFPA management is taking corrective action to ensure that country offices provide the UNFPA Division for Oversight Services with full access to all requested documentation. This includes ensuring adequate forward planning and the provision of necessary support by regional offices.

Letters of representation (paragraph 31 of the annual report of the Audit Advisory Committee)

14. The requisite letters of representation have been obtained for the period 2008-2009 and, effective 2010, will be obtained on an annual basis to support the annual financial statements.

National execution (paragraphs 33-34 of the annual report of the Audit Advisory Committee)

15. UNFPA is undertaking significant measures to increase support and oversight of country offices and divisions to address issues related to national execution (NEX). The UNFPA NEX Unit is working with the regional offices, headquarters divisions and, more specifically, the Division for Human Resources, to clarify processes and provide training to country offices and headquarters staff. UNFPA is increasingly using risk identification and mitigation strategies in support of its NEX implementation.

16. UNFPA management monitors country offices and has included a performance indicator on NEX for all UNFPA Representatives in the performance appraisal and development (PAD) system. The NEX Unit is also working with the Programme Division to address the issues of assessment and selection of implementing partners and the design of a manageable number of annual workplans in a programme. In a multidivisional effort, UNFPA is also designing an online financial and management tool at the activity level.

17. Furthermore, UNFPA is looking into recruiting audit companies at the regional level. The selection of firms will take into consideration the firms' and the auditors' independence, affiliation with professional bodies and compliance with international standards of auditing. The regional audit arrangement is expected to improve the situation with regard to the timely receipt of audit reports.

Enterprise risk management (paragraphs 35-36 of the annual report of the Audit Advisory Committee)

18. UNFPA has recruited a Senior Adviser dedicated to manage the ERM initiative. Taking into account the outcome of the work conducted by an external management consulting firm, an ERM strategy and policy are being developed, with a view to cover both risk exposure throughout the organization as well as external risks. To implement the ERM strategy and policy, an ERM implementation plan is also being developed. This plan will leverage existing systems, with a view to fully integrate ERM within policies, procedures and processes already in place and further simplify them.

19. Overall, UNFPA is fully committed to act upon and implement the recommendations of the Audit Advisory Committee, and, with the Committee's continuous guidance, to further strengthen oversight and accountability, ensuring that stated objectives and high-quality results are achieved and UNFPA resources are efficiently used.